

# Interest Income Reporting for Marketable Treasury Securities

www.treasurydirect.gov  
**1-800-722-2678**  
Outside the U.S. 617-994-5500

## BACKGROUND

Like they say, taxes are a certain thing, and it's no different with marketable Treasury securities. But only Federal tax applies; your Treasury security is exempt from state or local income taxes.

The Bureau of the Public Debt has two marketable securities programs—one for *TreasuryDirect* investors and another for those with paper (bearer or registered) securities. Both report tax information separately.

*TreasuryDirect* is a direct-access book-entry system that lets you safely reach your account electronically using our phone and Internet services. It's the easiest way to get duplicate 1099-INT forms. Just call our toll-free phone service at **1-800-722-2678** or visit us at **www.treasurydirect.gov** between February 1 and November 30 for last year's tax forms. (If you're outside the United States, call 617-994-5500.)

You can't electronically access our registered security program, but if you write and ask for a duplicate 1099-INT form, we'll send one to you. (Now might be a good time to convert your paper securities to *TreasuryDirect*. Contact your *TreasuryDirect* office for more information.)

## INTEREST INCOME

We report annually to the IRS all interest earned on Treasury bills and all semi-annual interest payments on Treasury notes and bonds. Each year you'll receive a Form 1099-INT in January (1042-S in March if you're a foreign investor) showing the interest you've earned.

Keep in mind, we report:

- interest you earn on Treasury securities using Form 1099-INT, and we mail it by

January 31 the year after the interest was earned. If you need duplicate 1099-INT forms, request them between February 1 and November 30 (you can only get electronic duplicates for the current tax year, but you may ask a *TreasuryDirect* representative to send forms for the previous two years).

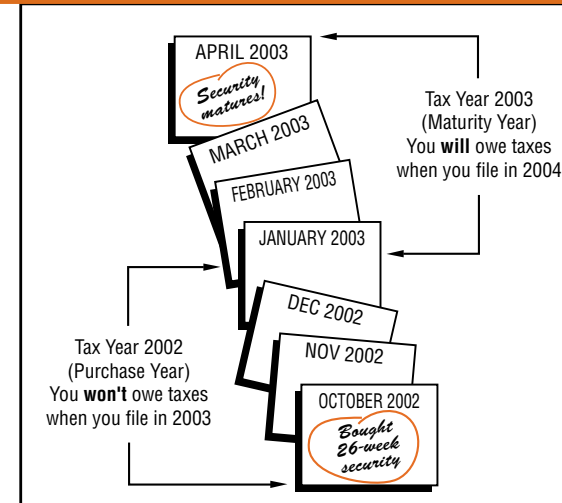
- interest and any Federal income tax withheld to the IRS using the taxpayer identification number (TIN) of the first-named owner. If the interest includes amounts that belong to someone else (other than a spouse), see IRS Publication 550, "Investment Income and Expense."

## INTEREST ON TREASURY BILLS

A bill is a short-term investment issued for a year or less. You buy bills at a discount from their face (par) value, and the difference between what you originally paid and what we pay you at maturity (or what you get if you sell the bill before it matures) is your interest. You don't get interest payments during the life of the bill.

**Take note:** Interest from your bill is reportable in the year you sell it or it matures, which is not necessarily the year you bought it!

For example, if you bought a 26-week bill in October 2002, it matures in April 2003. The interest is reported as earned in 2003—the year the bill matures. See the following illustration.



## INTEREST ON TREASURY NOTES and BONDS

Treasury notes and bonds pay interest every six months until they mature or, if they're "callable," on the call date. We report the interest for the year earned. This includes December 31 payments unless that payment date is a non-business day (Saturday, Sunday, or a Federal banking holiday). In that case, we report it as being paid in the next tax year.

## DISCOUNT ON TREASURY NOTES

When the purchase price of a Treasury note is less than its face value, the difference is called a discount. Discounts may or may not be reportable, depending on how much is involved. Refer to IRS Publication 550, under "U.S. Treasury Bills, Notes and Bonds."

## ORIGINAL ISSUE DISCOUNT (OID) and INFLATION-INDEXED SECURITIES

If you're a U.S. citizen, not only do you get a Form 1099-INT for any Inflation-Indexed securities you own, you also get a Form 1099-OID reporting how

much your Treasury Inflation-Indexed security increased because of inflation. Even though you never physically received the money reported as OID income, the IRS requires us to report the increased value of the security as income.

If you see a negative amount on your Form 1099-OID, it means the inflation rate dropped after you bought your Inflation-Indexed security, which dropped the value of the security below what you paid for it (or below what it was during the last tax year). We only report negative OID amounts to investors, not to the IRS. (But remember, you'll never lose your original investment amount when you purchase Inflation-Indexed securities.)

If you get two 1099-OID forms—one from us and one from your broker, it's probably because you transferred an Inflation-Indexed security from the broker to *TreasuryDirect* or vice versa. Just like us, your broker must report the amount of OID you earned while it was maintained in their system.

## SECURITY TRANSFER

The purchase price used for bills transferred into *TreasuryDirect* is shown on the transfer instructions. Once your security has been transferred, review your *TreasuryDirect Statement of Account* under "Purchase Price/\$100 of Par." If the price shown is wrong, send documentation showing the correct price to Bureau of the Public Debt, Marketable Assistance Branch, P.O. Box 426, Parkersburg, WV 26106-0426. We must receive documentation at least 10 business days before the security matures. That way, you can be sure the correct price shows on your 1099-INT. Otherwise, you'll be explaining differences to the IRS when you file taxes.

The interest income reported on notes and bonds transferred into *TreasuryDirect* is for the entire interest period, even if the transfer occurred

between interest payment dates. See IRS Publication 550, under “Bonds Sold Between Interest Dates,” for securities transferred into *TreasuryDirect* between interest payment dates.

If you use our *Sell Direct* program to sell your security before it matures, we'll report that interest. If you transfer your security to the commercial market, no interest income statement is generated by us for a bill. For a note or bond, an interest income statement would be generated by us for any interest paid prior to the transfer.

## PREMIUMS

A premium is the amount by which the auction price of a note is higher than its face value. If you paid the auction price by check, you would've gotten an invoice for the difference. See IRS Publication 550, under “Bond Premium Amortization.”

## BROKER REPORTING and REDEMPTIONS

Although you don't have to be a broker to be on the receiving end of this tax form, we annually report to the IRS the face value of matured Treasury securities that entered the *TreasuryDirect* system more than 25 days after they were originally issued. We also report the face value of matured securities in *TreasuryDirect* when the TIN changed, securities were transferred from one investor account to another during the life of the securities, or securities were sold through our *Sell Direct* program.

We report redemptions of notes and bonds if the securities were transferred:

- from the National Book-Entry System into *TreasuryDirect*
- within *TreasuryDirect*.

We use Form 1099-B, “Proceeds from Broker and Barter Exchange Transactions” to report redemptions, and we mail it by January 31, the year following the date of maturity.

## BACKUP WITHHOLDING

Payments you receive may be subject to a backup withholding of 30 percent if:

- you don't provide a valid TIN
- you don't certify that you are not subject to backup withholding
- we are notified by IRS that you are subject to backup withholding due to under-reported interest income, or
- IRS tells us the TIN you provided is wrong.

We report any backup withholding on Form 1099-INT under “Federal Income Tax Withheld.” Include that amount on your tax return as tax withheld.

## VOLUNTARY WITHHOLDING

We can help you plan for your taxes, too. Treasury can withhold some of your interest payments to help defray your tax burden. All you need to do is write to your *TreasuryDirect* office and give your *TreasuryDirect* account number, taxpayer identification number, and the percentage (up to 50 percent) you want withheld. We'll transfer your withholdings to IRS and report the withheld amount on Form 1099-INT under “Federal Income Tax Withheld.”

## FOREIGN REPORTING

We use IRS Form 1042-S to report income earned by nonresident alien individuals or fiduciary, foreign partnership, or foreign corporations. We mail it by March 15, the year after the income was earned.

## FOREIGN WITHHOLDING

Securities issued on or after July 19, 1984, are not subject to withholding if you've filed a properly executed IRS Form W-8BEN or W-8ECI with us. (Generally, these forms are valid for three years.) Securities issued before July 19, 1984, are subject to withholding of 30 percent or the applicable treaty rate.

## WHERE TO SUBMIT FORMS AND OTHER CORRESPONDENCE

Send all your documents and forms to:  
Bureau of the Public Debt  
Marketable Assistance Branch  
P.O. Box 426  
Parkersburg, WV 26106-0426

For more information or questions, call us at 1-800-722-2678. Outside the U.S. call 617-994-5500. These publications may also be helpful:

- For more information on **tax treatment of investment income**, see IRS Publication 550, “Investment Income and Expenses.”
- For more information on **backup withholding**, see IRS Publication 550, “Investment Income and Expenses;” and Form W-9, “Request for Taxpayer Identification Number and Certification.”
- For more information about **foreign withholding**, see IRS Publication 515, “Withholding of Tax on Nonresident Aliens and Foreign Corporations,” and Forms W-8BEN and W-8ECI.
- For **general tax information**, contact your local IRS Office. You can get IRS forms and publications from their website at **www.irs.gov** or from the IRS Distribution Center for your state.

**The information in this publication does not apply to U.S. Savings Bonds.**



PD P 0011  
Department of the Treasury  
Bureau of the Public Debt  
(Revised May 2002)

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